

Message Text

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PAGE 01 SAN JO 01620 030251Z

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 3392

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E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: LATIN AMERICAN BANK

PASS EXIMBANK

1. EMBASSY UNDERSTANDS FROM CREDITOR BANK REPRESENTATIVE THAT A SETTLEMENT OF THE LAB AFFAIR WAS NOT REACHED BETWEEN THE CREDITOR BANKS AND THE CENTRAL BANK AND THE STATE COMMERCIAL BANKS OF COSTA RICA BY MARCH 30 DEADLINE. IT IS NOW EXPECTED THAT THE MATTER WILL BE POSTPONED UNTIL APRIL 21 WITH FINAL SETTLEMENT TO BE EFFECTED BY APRIL 30. IT IS NOW EXPECTED THAT THE MAXIMUM AMOUNT OF LAB ASSETS TO BE TAKEN OVER BY THE STATE COMMERCIAL BANKS WILL BE \$10,466,600 RATHER THAN THE \$13,253,849 CONTEMPLATED IN THE MEMORANDUM OF ARRANGEMENT. THE EMBASSY UNDERSTANDS THAT THIS WOULD LOWER THE EXPECTED RECOVERY BY UNSECURED CREDITORS SUCH AS THE EXIMBANK FROM 73 PERCENT TO 63 PERCENT.

2. THE EMBASSY UNDERSTANDS THAT SETTLEMENT COULD HAVE TAKEN PLACE MARCH 30 IF THE CREDITOR BANKS HAD BEEN WILLING TO SETTLE FOR COMMITMENTS TOTALLING \$9 MILLION FROM THE STATE COMMERCIAL BANKS OF COSTA RICA, WHICH WOULD HAVE BEEN EVIDENCED BY NOTES OF THE STATE COMMERCIAL BANKS ISSUED IN FAVOR OF THE CREDITOR BANKS. IT WOULD SEEM, HOWEVER, THAT THE INVESTOR BANKS, WHICH ARE REPRESENTING THE OTHER CREDITOR BANKS IN THIS AFFAIR, INSISTED THAT THE COSTA RICAN BANKS SIGN A NEW ARRANGEMENT CALLED A TERM LOAN AGREEMENT THAT CONTAINED

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PAGE 02 SAN JO 01620 030251Z

CERTAIN PROVISIONS THAT ARE UNACCEPTABLE TO THE COSTA

RICAN CENTRAL BANK. ACCORDING TO THE EMBASSY'S INFORMATION, SOME OF THE CONDITIONS OF THE TERM LOAN AGREEMENT MAY ALSO BE UNACCEPTABLE TO SOME OF THE OTHER CREDITOR BANKS, AS THE CONDITIONS WOULD HAVE THE EFFECT OF RELEASING THE INVESTOR BANKS FROM ANY LIABILITIES THAT THEY MIGHT HAVE TOWARD THE OTHER CREDITOR BANKS. MOREOVER, THERE IS SOME UNHAPPINESS OVER THE ALLEGED INTENT OF THE INVESTOR BANKS TO APPOINT A BANK WHICH THEY CONTROL, THE ALLIED BANK OF NEW YORK, AS THE AGENT BANK TO CARRY OUT THE NEW PROPOSED ARRANGEMENTS WITH THE COSTA RICAN BANKS. THE EMBASSY DOES NOT WISH TO BECOME INVOLVED IN ANY DISPUTE AMONG THE VARIOUS CREDITOR BANKS BUT BELIEVES THAT THE U.S. EXIMBANK, AS ONE OF THE MAJOR CREDITORS OF LAB, WILL WANT TO FOLLOW CLOSELY THE NEW ARRANGEMENTS BEING PROPOSED.

3. IN CONTRAST TO THE TECHNICAL PROBLEMS AND POSSIBLE DISPUTES ON THE U.S. SIDE, THERE IS CONSIDERABLE OPTIMISM ABOUT THE COSTA RICAN SIDE OF THE AFFAIR, ACCORDING TO INITIAL REPORTS. IT WOULD APPEAR THAT THE COSTA RICAN CENTRAL BANK AND THE NATIONALIZED COMMERCIAL BANKS ARE MAKING A SINCERE EFFORT TO ACHIEVE A REASONABLE SOLUTION OF THE LAB PROBLEM.
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